

**LINCOLN GARDENS OWNERS INC.**  
**(A COOPERATIVE HOUSING CORPORATION)**

**FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2006**

LINCOLN GARDENS OWNERS INC.  
FOR THE YEAR ENDED DECEMBER 31, 2006  
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# STEVEN J. MAUCERI

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TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF LINCOLN GARDENS OWNERS INC.

## INDEPENDENT AUDITOR'S REPORT

I have audited the accompanying balance sheets of Lincoln Gardens Owners Inc. as of December 31, 2006 and December 31, 2005, and the related statements of operations and cash flows for the years then ended. These financial statements and schedules are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements and schedules based on my audit.

I conducted the audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements and schedules referred to above present fairly, in all material respects, the financial position of Lincoln Gardens Owners Inc. as of December 31, 2006 and December 31, 2005 and results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in the notes to the financial statements, the Corporation has not estimated the remaining lives and replacement costs of common property and, therefore, has not presented information about the estimates of future costs of major repairs and replacements that will be required in the future that the American Institute of Certified Public Accountants has determined is required to supplement, although not required be a part of, the basic financial statements.

My audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information included in Schedules 1 to 8 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
STEVEN J. MAUCERI, CPA

Brooklyn, NY  
February 16, 2007

LINCOLN GARDENS OWNRS INC.

BALANCE SHEETS

DECEMBER 31,

|   | <u>2006</u>         | <u>2005</u>         |
|---|---------------------|---------------------|
| <u>ASSETS</u>                                 |                     |                     |
| <u>CURRENT ASSETS</u>                         |                     |                     |
| Cash-operating account                        | \$ 46,495           | \$ 17,406           |
| Reserve funds                                 | 94,831              | 75,931              |
| Shareholders' arrears                         | 8,626               | 9,871               |
| Mortgage escrow                               | 698                 | --                  |
| Garage rent receivable                        | 1,500               | 1,240               |
| Prepaid expenses-Schedule 1                   | <u>144,058</u>      | <u>134,663</u>      |
| Total Current Assets                          | <u>296,208</u>      | <u>239,111</u>      |
| <u>PROPERTY NET - NOTE 4</u>                  | <u>2,099,489</u>    | <u>2,190,853</u>    |
| <u>OTHER ASSETS</u>                           |                     |                     |
| Deferred financing costs (Net)                | 37,719              | 45,523              |
| Investment in NCB Stock - Note 6              | <u>4,531</u>        | <u>4,531</u>        |
| Total Other Assets                            | <u>42,250</u>       | <u>50,054</u>       |
| Total Assets                                  | <u>\$ 2,437,947</u> | <u>\$ 2,480,018</u> |
| <u>LIABILITIES &amp; STOCKHOLDERS' EQUITY</u> |                     |                     |
| <u>CURRENT LIABILITIES</u>                    |                     |                     |
| Accounts payable/accrued expenses-Schedule 2  | \$ 52,623           | \$ 47,125           |
| Due to Sponsor                                | 205,283             | 195,815             |
| Deposits payable                              | 5,459               | 872                 |
| Line of Credit                                | 8,022               | 8,022               |
| Mortgage principal payable                    | <u>16,300</u>       | <u>15,100</u>       |
| Total Current Liabilities                     | 287,687             | 266,934             |
| <u>LONG TERM LIABILITIES</u>                  |                     |                     |
| Mortgage principal payable-Note 5             | <u>1,926,010</u>    | <u>1,940,230</u>    |
| Total liabilities                             | <u>2,213,697</u>    | <u>2,207,164</u>    |
| <u>STOCKHOLDERS' EQUITY</u>                   |                     |                     |
| Capital stock-Common - 99,000 Authorized      |                     |                     |
| 85,452 Issued and Outstanding @               |                     |                     |
| \$ 1.00 par value                             | 85,452              | 85,452              |
| Contributed capital in excess of par value    | 1,335,966           | 1,322,946           |
| Accumulated Deficit                           | <u>(1,197,168)</u>  | <u>(1,135,544)</u>  |
| Total stockholders' equity                    | <u>224,250</u>      | <u>272,854</u>      |
| Total liabilities and stockholders' equity    | <u>\$ 2,437,947</u> | <u>\$ 2,480,018</u> |

See Notes to Financial Statements.

LINCOLN GARDENS OWNERS INC.

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31,

|   | <u>2006</u>           | <u>2005</u>           |
|---|-----------------------|-----------------------|
| <u>INCOME</u>   |                       |                       |
| <u>Income from Shareholders</u>                                       |                       |                       |
| Maintenance charges   | \$ 995,429            | \$ 982,726            |
| Less: Contributions<br>for Mortgage Amortization                      | <u>(13,020)</u>       | <u>(13,178)</u>       |
|   | 982,409               | 969,548               |
| Laundry   | 13,577                | 14,614                |
| Garage rental   | <u>93,551</u>         | <u>81,781</u>         |
| Total income from shareholders  | <u>1,089,537</u>      | <u>1,065,943</u>      |
| <u>Other Income</u>   |                       |                       |
| Miscellaneous   | 7,114                 | 2,620                 |
| Interest income   | <u>4,568</u>          | <u>3,068</u>          |
| TOTAL OTHER INCOME  | <u>11,682</u>         | <u>5,688</u>          |
| TOTAL INCOME  | <u>1,101,219</u>      | <u>1,071,631</u>      |
| <u>COST OF OPERATIONS</u>   |                       |                       |
| Administrative expenses-Schedule 3                                    | 124,510               | 130,930               |
| Operating expenses-Schedule 4   | 363,442               | 437,533               |
| Maintenance expenses-Schedule 5                                       | 77,197                | 45,398                |
| Taxes-Schedule 6  | 339,348               | 315,207               |
| Financial expenses-Schedule 7   | <u>131,563</u>        | <u>134,846</u>        |
| Total cost of operations  | <u>1,036,060</u>      | <u>1,063,914</u>      |
| INCOME (LOSS) FROM OPERATIONS BEFORE<br>DEPRECIATION AND AMORTIZATION | 65,159                | 7,717                 |
| Depreciation and Amortization -Schedule 8                             | <u>(126,783)</u>      | <u>(126,270)</u>      |
| NET (LOSS) FOR THE YEAR   | (61,624)              | (118,553)             |
| ACCUMULATED DEFICIT - BEGINNING OF YEAR                               | <u>(1,135,544)</u>    | <u>(1,016,991)</u>    |
| ACCUMULATED DEFICIT - END OF YEAR                                     | <u>\$ (1,197,168)</u> | <u>\$ (1,135,544)</u> |

See notes to financial statements.

LINCOLN GARDENS OWNERS INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,

|   | <u>2006</u>       | <u>2005</u>       |
|---|-------------------|-------------------|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>  |                   |                   |
| Loss for the year   | \$ (61,624)       | \$ (118,553)      |
| Adjustments to reconcile<br>net loss to cash provided/<br>(used in) operating activities: |                   |                   |
| Non cash item: depreciation and amortization  | 126,783           | 126,270           |
| (Increase) decrease in:   |                   |                   |
| Shareholders' Arrears   | 1,245             | (2,173)           |
| Mortgage Escrow   | (698)             | 15,887            |
| Prepaid Expenses  | (9,395)           | (10,692)          |
| Garage rent receivable  | (260)             | 260               |
| Increase (decrease) in:   |                   |                   |
| Accounts payable/accrued expenses   | 5,498             | 5,586             |
| Due to Sponsor  | 9,468             | -                 |
| Deposit garage remote control   | <u>4,587</u>      | <u>(288)</u>      |
| NET CASH PROVIDED (USED) BY<br>OPERATING ACTIVITIES                                       | <u>75,604</u>     | <u>16,297</u>     |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>  |                   |                   |
| NCB stock - net   | -                 | 975               |
| Acquisition of building improvements  | <u>(27,615)</u>   | <u>-</u>          |
| Net cash provided (used) by investing activities  | <u>(27,615)</u>   | <u>975</u>        |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u>   |                   |                   |
| Payments of Long-term debt  | (13,020)          | (13,178)          |
| Proceeds fro Capital Contributed<br>for Mortgage Amortization                             | <u>13,020</u>     | <u>13,178</u>     |
| Net cash provided (used) by financing activities  | <u>0</u>          | <u>-</u>          |
| NET INCREASE (DECREASE) IN CASH<br>AND CASH EQUIVALENTS                                   | <u>47,989</u>     | <u>17,272</u>     |
| CASH AND CASH EQUIVALENTS-<br>BEGINNING OF YEAR   | <u>93,337</u>     | <u>76,065</u>     |
| CASH AND CASH EQUIVALENTS -<br>END OF YEAR  | <u>\$ 141,326</u> | <u>\$ 93,337</u>  |
| <u>CASH PAID DURING THE YEAR FOR:</u>   |                   |                   |
| Interest  | <u>\$ 131,563</u> | <u>\$ 134,846</u> |
| Income taxes  | <u>\$ 3,907</u>   | <u>\$ 1,661</u>   |

See notes to financial statements

LINCOLN GARDENS OWNERS INC.

FINANCIAL STATEMENTS

DECEMBER 31,

2006

2005

SCHEDULE 1

PREPAID EXPENSES

|                   |                   |                   |
|-------------------|-------------------|-------------------|
| Real estate taxes | \$ 84,223         | \$ 80,534         |
| Water/sewer       | 41,873            | 37,027            |
| Insurance         | 17,962            | 17,102            |
| TOTAL             | <u>\$ 144,058</u> | <u>\$ 134,663</u> |

SCHEDULE 2

ACCOUNTS PAYABLE AND ACCRUED EXPENSE

|                      |                  |                  |
|----------------------|------------------|------------------|
| Fuel                 | \$ 21,492        | \$ 29,501        |
| Insurance            | --               | 7,152            |
| Electricity and gas  | 3,168            | 2,892            |
| Exterminating        | 488              | 568              |
| Supplies             | 2,284            | 808              |
| Elevator maintenance | 3,186            | 1,200            |
| Plumbing repairs     | 1,030            | --               |
| Payroll taxes        | --               | 1,504            |
| Water/sewer          | 15,000           | --               |
| Repairs              | 1,500            | --               |
| Legal                | 975              | --               |
| Auditing             | 3,500            | 3,500            |
| TOTAL                | <u>\$ 52,623</u> | <u>\$ 47,125</u> |

SCHEDULE 3

ADMINISTRATIVE EXPENSES

|  |                   |                   |
|--|-------------------|-------------------|
| Management fee   | \$ 26,000         | \$ 32,800         |
| Auditing   | 3,500             | 3,500             |
| Legal and Professional   | 9,698             | 6,350             |
| Stationery, printing, miscellaneous<br>administrative expenses | 8,467             | 5,432             |
| Telephone and beeper   | 1,808             | 2,844             |
| Insurance  | 75,037            | 80,004            |
| TOTAL  | <u>\$ 124,510</u> | <u>\$ 130,930</u> |

See Notes to Financial Statement.

LINCOLN GARDENS OWNERS INC.

FINANCIAL STATEMENTS

DECEMBER 31,

2006

2005

SCHEDULE 4

OPERATING EXPENSES

Utilities

|                         |                |                |
|-------------------------|----------------|----------------|
| Fuel                    | \$ 148,679     | \$ 150,393     |
| Electricity and Gas     | 31,403         | 28,225         |
| Water and sewer charges | <u>78,900</u>  | <u>72,974</u>  |
|                         | <u>258,982</u> | <u>251,592</u> |

Payroll

|                   |                |                |
|-------------------|----------------|----------------|
| Payroll           | 84,328         | 146,208        |
| Payroll taxes     | 10,601         | 17,616         |
| Employee benefits | <u>9,531</u>   | <u>22,117</u>  |
|                   | <u>104,460</u> | <u>185,941</u> |

TOTAL

\$ 363,442      \$ 437,533

SCHEDULE 5

MAINTENANCE EXPENSES

|                                   |              |              |
|-----------------------------------|--------------|--------------|
| Building Exterior                 | \$ 11,860    | \$ --        |
| Plumbing repairs                  | 6,820        | 6,619        |
| Exterminating                     | 4,888        | 6,268        |
| Elevator maintenance and repairs  | 12,045       | 14,429       |
| Miscellaneous repairs             | 31,364       | 9,399        |
| Supplies and janitorial materials | 3,316        | 1,740        |
| Permits and fees                  | 1,595        | 993          |
| Grounds contracts                 | <u>5,309</u> | <u>5,950</u> |

TOTAL

\$ 77,197      \$ 45,398

SCHEDULE 6

TAXES

|                                 |              |            |
|---------------------------------|--------------|------------|
| New York City real estate taxes | \$ 335,441   | \$ 313,546 |
| New York State franchise taxes  | 2,344        | 750        |
| New York City corporate taxes   | <u>1,563</u> | <u>911</u> |

TOTAL

\$ 339,348      \$ 315,207

SCHEDULE 7

FINANCIAL EXPENSES

|                               |                   |                   |
|-------------------------------|-------------------|-------------------|
| Interest on mortgages payable | \$ <u>131,563</u> | \$ <u>134,846</u> |
| TOTAL                         | \$ <u>131,563</u> | \$ <u>134,846</u> |

See Notes to Financial Statements.



LINCOLN GARDENS OWNERS INC.

FINANCIAL STATEMENTS

DECEMBER 31,  
2006 2005

SCHEDULE 8

DEPRECIATION

Building - 40 years straight-line

\$ 88,651

\$ 88,651

Building improvements - various straight-line

30,328

29,815

118,979

118,466

AMORTIZATION

Deferred financing costs - 10 years straight-line

7,804

7,804

TOTAL

\$ 126,783

\$ 126,270

See Notes to Financial Statements.

LINCOLN GARDEMS OWNERS INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

NOTE 1. ORGANIZATION

Lincoln Gardens Owners Inc. was incorporated on January 13, 1986 under the Business Corporation Law of the State of New York to qualify as a cooperative housing corporations defined in Section 216 of the Internal Revenue Code and corresponding provision of the New York State and New York City tax laws. The Corporation converted to Cooperative Housing on August 16, 1988 pursuant to an offering plan accepted for filing by the Department of Law of the State of New York. The primary purpose of the corporation is to manage the operations of the land and buildings, owned by the Corporation, located at 144-40 to 144-50 38<sup>th</sup> Ave, Flushing, NY, containing 168 residential units and to maintain the common elements.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies of the Corporation is presented to assist in understanding the Corporation's financial statements. The financial statements and notes are representations of the Corporation's management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

A. Basis of accounting

The Corporation uses the accrual basis of accounting for both financial statement and tax reporting purposes. All maintenance charges are recognized as earned when assessed and expenditures are recognized when accrued.

B. Maintenance Fees

Tenant-Shareholders are subject to monthly assessments to provide funds for the Corporation's operating expenses, future capital acquisitions, and major repairs and replacements. Tenant-shareholder receivables at the balance sheet date represent maintenance fees due from tenant-shareholders. The Corporation's policy is to retain legal counsel whose assessments are thirty days or more delinquent. Any excess assessments at year end are retained by the Corporation for use in the succeeding year.

C. Depreciation

Property is stated at cost. The purchase price of the real property was allocated between land and building based on their respective assessed valuations for real estate tax purposes at the acquisition date. For tax purposes, the acquisition of the property is being reported as a tax-free exchange pursuant to Section 351 of the Internal Revenue Code. Maintenance, repairs and recurring replacements are charged to expense when incurred. Replacements which improve or extend the useful lives of the properties have been capitalized. Building, building improvements and equipment are being depreciated over their estimated useful lives using the straight-line method.

D. Deferred Costs

Deferred Costs consists of closing costs associated with the refinance of the mortgage, which are being amortized using the straight line method over a period of 10 years.

LINCOLN GARDEN OWNERS INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES, continued

E. Cash and Cash Equivalents

For purposes of the statement of cash flow the Corporation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

F. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

G. Accounts Receivable Tenant Owners

An allowance for doubtful accounts receivable is not reflected in these financial statements inasmuch as, in the opinion of management, all of the accounts receivable are fully collectible.

H. Compensated Absences

Employees of the Company are entitled to paid vacation, paid sick days and paid personal days depending on the job classification, length of service and other factors as per their contract. Liability has been recorded in the accompanying financial statements. The Company's policy is to recognize the costs of compensated absences based on an estimate at year end.

NOTE 3. RESERVE FUND

The Sponsor was required to contribute to the Apartment Corporation at the date of conversion (See Note 1) \$315,000 to be segregated as a "Reserve Fund". This Reserve Fund is to be used exclusively for making capital repairs, replacements and improvements necessary for the maintenance of the building. At December 31, 2006 and December 31, 2005, the Reserve Fund consists of Money Markets accounts of approximately \$87,281 and \$75,931, respectively.

LINCCOLN GARDENS OWNERS INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

NOTE 4. PROPERTY - NET

The land and building are stated at cost. Depreciation of the building and improvements for financial statement purposes is recorded on the straight-line method over their estimated useful lives.

|                               | <u>2006</u>         | <u>2005</u>         |
|-------------------------------|---------------------|---------------------|
| Land                          | \$ 609,538          | \$ 609,538          |
| Building                      | 2,438,151           | 2,438,151           |
| Building Improvements         | <u>749,114</u>      | <u>721,499</u>      |
| Total                         | 3,796,803           | 3,769,188           |
| Less Accumulated Depreciation | <u>(1,697,314)</u>  | <u>(1,578,335)</u>  |
| Property/Improvements-Net     | <u>\$ 2,099,489</u> | <u>\$ 2,190,853</u> |

NOTE 5. MORTGAGE NOTE PAYABLE

On October 18, 2001, the Corporation refinanced its mortgage with NCB Mortgage Corporation in the principal amount of \$2,000,000. The mortgage bears interest at the rate of 6.75% per annum and requires a constant monthly payment of \$12,202, applied first toward interest and the remainder to principal. A final balloon payment of approximately \$1,706,020 is due at maturity on November 1, 2011. The mortgage is collateralized by the land and building owned by the Corporation.

No prepayment shall be allowed until November 1, 2011. Thereafter, the Loan may be prepaid in whole only, upon at least thirty (30) and not more than ninety (90) days' prior notice to NCB, which notice shall expressly set forth the date upon which such prepayment is to be made (the "Noticed Prepayment Date"). With respect to any such prepayment, the Corporation shall be subject to the payment of a prepayment fee. Prepayment in whole may be made without penalty during the ninety (90) day period preceding maturity.

Principal maturities of the mortgage notes payable during the next five years are as follows:

Year Ending December 31,

|            |                     |
|------------|---------------------|
| 2007       | \$ 16,300           |
| 2008       | 17,600              |
| 2009       | 19,000              |
| 2010       | 20,600              |
| Thereafter | <u>1,868,810</u>    |
|            | <u>\$ 1,942,310</u> |

In addition, the Corporation obtained a revolving credit line from NCB Mortgage Corporation for \$500,000 requiring interest payments on the amounts advanced equal to 1.0% per annum above the Base Rate (interest established by NCB as its Commercial Loan Base Rate for its commercial loan facilities). Commencing October 18, 2001, monthly payments of principal and interest, shall be paid until its maturity on November 1, 2011 based on a 25-year amortization. As of December 31, 2006 and December 31, 2005 there was \$8,022 borrowing against the loan. Financing costs of \$78,040 incurred in connection with the mortgage refinancing have been deferred and are being amortized over the term of the mortgage

LINCOLN GARDENS OWNERS INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

NOTE 6. STOCK IN NATIONAL CONSUMER COOPERATIVE BANK

The National Consumer Cooperative Bank Act requires borrowers from the bank to own Class B stock in an amount no less than one percent (1%) of the face amount of the line of credit at the time the loan is made. Upon payment in full of the mortgage loan, the bank will repurchase the shares of B stock at the par value of \$100 per share.

NOTE 7. CONCENTRATION OF CREDIT RISK

The Corporation maintains various bank and money market accounts which at times may exceed federally insured credit limits. The Corporation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk with respect to such balances.

NOTE 8. ADDITIONAL PAID-IN CAPITAL

|                               | <u>2006</u>         | <u>2005</u>         |
|-------------------------------|---------------------|---------------------|
| Beginning of Year             | \$ 1,322,946        | \$ 1,309,768        |
| Add: Contributed for Mortgage |                     |                     |
| Amortization                  | <u>13,020</u>       | <u>13,178</u>       |
| End of Year                   | <u>\$ 1,335,966</u> | <u>\$ 1,322,946</u> |

NOTE 9. MANAGEMENT AGREEMENT

Effective November 1, 2005, the Apartment Corporation entered into a management agreement with Tribor Management Inc. (Tribor), located at 39-35 51<sup>st</sup> Street, Woodside, NY 11377. Under the terms of the agreement, Tribor is responsible for most of the administrative aspects of managing the Apartment Corporation. Effective November 1, 2005, the Apartment Corporation shall pay Tribor \$26,000 per annum, payable in equal monthly installments of \$2,166.67 per month. The agreement shall continue in force for a term of one year and will be automatically renewed from year to year until terminated.

NOTE 10. FEDERAL INCOME TAXES

For a number of years, the Internal Revenue Service, as well as state and local governments, has taken the position that real estate cooperatives are subject to Section 277 of the Internal Revenue Code.

Section 277 of the Code provides that a membership organization that is operated to provide services to members is permitted to deduct expenses attributable to the furnishing of services to the members only to the extent of the income derived during such year from its members. Section 277 permits a membership organization to reduce income from non-membership sources only by expenses incurred in generating this income. Accordingly, income from non-membership sources such as interest, commercial rental, professional apartment rental, etc., in excess of expenses properly attributable thereto, may be subject to Federal, State and City taxes.

During 1996, in a case involving a conventional cooperative, the United States Tax Court ruled that Subchapter T of the Internal Revenue Code, not Section 277, applies to housing cooperatives that qualify under Section 216 of the Internal Revenue Code. Subchapter T required allocations of patronage and non-patronage source income, and in some cases the allocations may not be clear. Pending further developments and court decisions no provision for income taxes resulting from the application of Section 277 or Subchapter T has been made in the attached financial statements.

LINCOLN GARDENS OWNERS INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

NOTE 10. FEDERAL INCOME TAXES, Continued

Under the applicable provision of the Internal Revenue Code, Federal income taxes have not been provided in the statement of revenue and expenses for 2006 and 2005. Under the method it uses when preparing its Federal income tax return, the Corporation has available net tax operating loss carryforwards expiring through 2026.

NOTE 11. FUNDING FOR FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Corporation's governing documents do not require the accumulation of funds to finance estimated future major repairs and replacements.

The Corporation has not conducted a study to determine the remaining useful lives of the components of common property and current estimates of the costs of major repairs and replacements that may be required in the future. The board of directors has also not developed a plan to fund those needs. When funds are required to meet future needs for major repairs and replacements, the Corporation has the right to borrow, increase maintenance charges, pass special assessments, or delay repairs and replacements until funds are available. The effects on future assessments have not been determined.

NOTE 12. RELATED PARTY TRANSACTIONS

At December 31, 2006 and December 31, 2005, the Sponsor owned approximately 24.0% and 29.5%, respectively, of the outstanding stock of the Corporation. The Sponsor is current on all of its obligations due to the Corporation.